of Staff and the Joint Staff; the Defense Agencies; and the DoD Field Activities (hereafter referred to collectively as the ''DoD Components'').

(b) Encompasses the acquisition of equipment and facilities to improve the following:

(1) Productivity, quality, and processes of DoD Components including major facilities, equipment, or process modernization.

(2) Performance of individual jobs, tasks, procedures, operations, and processes.

(c) Encompasses PIF investments at appropriated and industrially funded activities, if they are not participating in the Defense Business Operations Fund. For industrially funded activities, projects may be submitted for PIF on an exception basis; primarily, this includes facilities, multi-function projects, prototypes, demonstrations, and cross-service initiatives. Investments at Government-owned, contractor-operated (GOCO) facilities are limited to those for which the Department of Defense has responsibility to provide equipment or facilities and from which productivity benefits can be recovered within existing contractual provisions.

§ 162.3 Definition.

(a) *Capital Investment.* The acquisition, installation, transportation, and other costs needed to place equipment or facilities in operation meeting DoD capitalization requirements.

(b) *Economic Life.* The time period over which the benefits to be gained from a project may reasonably be expected to accrue to the Department of Defense.

(c) *Internal Rate of Return (IRR).* The discount rate that equates the present value of the future cash inflows, e.g. savings and cost avoidances, with the present value costs of an investment.

(d) *Life-Cycle Savings.* The estimated cumulative budgetary savings expected over the life of the project.

(e) *Net Present Value of Investment.* The difference between the present value benefit and the present value cost at a given discount rate.

(f) *Off-the-Shelf.* Equipment that is readily available through Government or commercial sources or that can be fabricated through combination or modification of existing equipment.

(g) *Pay-Back Period.* The number of years required for the cumulative savings to have the same value as the investment cost.

(h) *PECI Benefits.* Benefits resulting from PECIs are classified as savings or as cost avoidance:

(1) *Savings.* Benefits that can be precisely measured, quantified, and placed under management control at time of realization. Savings can be reflected as specific reductions in the approved program or budget, after they have been achieved. Examples include costs for manpower authorizations and or funded work-year reductions, reduced or eliminated operating costs (utilities, travel, and repair), and reduced or eliminated parts and contracts.

(2) *Cost-Avoidance.* Benefits from actions that obviate the requirements for an increase in future levels of manpower or costs that would be necessary, if present management practices were continued. The effect of cost-avoidance savings is the achievement of a higher level of readiness or increased value (quantity, quality or timeliness) of output at level staffing cost or the absorption of a growing work load at the same level of staffing or cost.

(i) *Post-Investment Assessment* (PIA). A PIA is conducted by DoD Components to establish accountability and provide information to improve future investment strategies.

(j) *Productivity.* The efficiency with which resources are used to provide a government service or product at specified levels of quality and timeliness.

(k) *Productivity Enhancement (or Productivity Improvement).* A decrease in the unit cost of products and services delivered with equal or better levels of quality and timeliness.

(l) *Productivity Enhancing Capital Investment* (PECI). Equipment or facility funding that shall improve Government service, products, quality, or timeliness. PECI projects are funded using PIF, PEIF, and CSI programs. These programs are defined as follows:

(1) *Productivity Investment Fund* (PIF). PIF projects cost over $100,000 and must amortize within 4 years from the date they become operational. In FY 1994 the threshold changes to $150,000.

(2) *Productivity Enhancing Incentive Fund* (PEIF). PEIF projects cost under $100,000 and are expected to amortize within 2 years of the date they become operational. In FY 1994 the limit changes to $150,000.

(3) *Component-Sponsored Investment* (CSI). CSI projects are fast pay-back or high interest investments that may have different DoD Component selection criteria than those specified for PIF or PEIF projects.

(m) *Quality*. The extent to which a product or service meets customer requirements and customer expectations.

§ 162.4 Policy.

It is DoD Policy that:

(a) The PECI program shall be an integral part of DoD Component investment planning and of the Defense Planning, Programming, and Budgeting System (PPBS) DoD Instruction 7045.7.[4] PECI planning shall include the productivity investment fund (PIF), the productivity enhancing incentive fund (PEIF), and component-sponsored investments (CSIs). The PECI program is a major DoD strategy to achieve productivity goals under E.O. 12637.[5]

(b) PECI projects shall be selected to improve quality and productivity, or to reduce unit cost of outputs in defense operations. PECI projects shall be evaluated and approved for funding based on recognized principles of economic analysis. Each PECI project shall be subject to all restrictions established by public law, DoD policy, and other regulatory constraints.

(c) DoD personnel at all levels shall be encouraged to seek out and identify opportunities for quality and productivity improvement. Those efforts shall be supported by using the PECI as a means of financing the improvements. The PECI Program shall provide incentives for participation, supported by the financial management system and policies.

(d) Individuals or groups who successfully identify PECI opportunities that result in significant savings or improvements in quality or productivity or who aggressively promote PECI incentives within their organizations should be recognized through the DoD Incentive Awards Program, DoD Instruction 5120.16,[6] the Secretary of Defense Productivity Excellence Awards Program, performance appraisal, or other appropriate means. All these savings derived through PECI will remain with the originating DoD Component. As an incentive a portion of these savings, when possible, should remain at the submitting activity.

(e) Funds provided through FY 1993 from the centrally managed OSD PIF may not be reprogrammed for non-PIF purposes without prior approval of the Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)). The Heads of DoD Components shall monitor obligation rates to ensure PIF projects are executed quickly. If project funding cannot be obligated within the specified fiscal year(s) for the type of funding, the Head of the DoD Component must reprogram PIF funds to alternate approved PIF projects. The PIF projects shall be monitored to ensure timely implementation and to validate savings through the amortization period. The PECIs are subject to audit as established by DoD Instruction 7600.2[7] (reference (g)) policy.

§ 162.5 Responsibilities.

(a) The Assistant Secretary of Defense (Force Management and Personnel (ASD (FM&P)) shall:

(1) Develop policies and guidance for the overall DoD PECI program.

(2) Maintain oversight of the PECI program to ensure implementation of this instruction. Through FY 1993 that oversight includes total process control and coordination of PIF actions to identify, select and approve, reprogram, and disapprove projects. Starting FY 1994 and ASD (FM&P) shall retain central oversight of the PECI program which is decentralized to the Components.

(3) Evaluate program results and training requirements and provide additional guidance, as necessary.

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[4] See footnote 1 to § 162.1(a).

[5] See footnote 1 to § 162.1(a).

[6] See footnote 1 to § 162.1(a).

[7] See footnote 1 to § 162.1(a).